APPENDIX I.

THE CIVIL AND MILITARY STATION, BANGALORE, AND ITS SURPLUS REVENUE.

The letter dated the 22nd July 1920 received from the First Assistant to the Hon'ble the Resident regarding the retention of the total amount of the annual surplus which has accrued during the past two years and which will accrue during the current financial year, and the temporary increase of the reserve fund from 5 lakhs to an amount that may be necessary to provide for the carrying out of the schemes of improvement and reform in the C. and M. Station, the cost of which cannot at present be accurately estimated, is the last of a series of three letters commencing from letter No. 5807 dated the 2nd August 1917 in which the policy which had been previously laid down in the clearest possible terms and after mature consideration by the Secretary of State and the Government of India in regard to the payment of the annual surplus of revenues of the Assigned Tract of the C. and M. Station, Bangalore, to the Durbar, has, in the opinion of His Highness' Durbar, been deliberately set aside.

2. It has to be added that the last communication has caused the Durbar the greatest possible financial embarrassment and also surprise, as they have had no intimation whatever of this sudden change of policy; nor have they been asked at any time to express any opinion regarding the new situation, if any, which may justify, in the opinion of the Government of India, a reversal of the declared policy and consideration all on a sudden, of large schemes of improvement and reform at the expense of the surplus revenues.

3. It is therefore necessary to examine the correspondence relating to the acknowledgment by the Government of India of the claims of the Durbar to the surplus revenues of the Assigned Tract, in order to apprehend how much of this acknowledgment is now sought to be modified.

4. In his letter dated 17th July, 1912, the First Assistant Resident communicated the decision of the Government of India in regard to the claim preferred by the Durbar for the surplus revenues of the Assigned Tract. The decision conveyed in paragraph 5 of this letter has been described by the Resident as "*the pronouncement of Government policy*" clearly indicating that the Government of India arrived at a final solution of this question which was not expected to be re-opened or revised in any way in future. This letter enunciated the following two principles in regard to the revenues of the C. and M. Station:—

(1) The items of expenditure to be debited to the surplus revenues in the *pro forma* account were finally decided.

It was also resolved that the items should include only the ordinary charge of Civil Administration and that the *pro forma* accounts should be relieved entirely of all expenditure on account of military requirements

The Government of India further declared that they had no intention of benefiting the Imperial Exchequer at the cost of the revenues of the Assigned Tract.

(2) They also decided that, provided the surplus accruing to the *pro forma* account as calculated above is regular and substantial, it should be handed over to the Durbar in future.

5. These principles were enunciated in detail in reply to a representation made by the Durbar that the *pro forma* account prepared before the issue of this order, had debited to the revenues of the C. and M. Station certain items of expenditure not originally intended to be met from the revenues of the Station. The letter concluded as follows:—

"In conclusion, I am to convey the Resident's congratulations to the Durbar on a satisfactory *termination* of a lengthy and troublesome correspondence. Sir Hugh Daly feels that the Durbar will recognise that the Government of India have dealt with the case in a liberal spirit and loyally accept the frank pronouncement of Government policy."

6. The next stage of the settlement was as follows:—

In his letter dated the 27th November 1913, the First Assistant Resident

stated, in regard to the payment of future surpluses, the Government of India were disposed to prefer the payment triennially or quadrennially, as the payment depended upon the surplus being regular and substantial. After it was pointed out that there was no reason to apprehend that the surplus would differ materially from what it was in the past, the Government of India consented to pay the surplus *every year* (*vide* letter No. 1516 dated the 3rd March 1914). The manner in which this annual payment should be made has also been decided by the Government of India.

The Residency communication dated 7th April 1914 was to the following effect:—

"For the future, there will be an annual adjustment, through the account current with the Mysore State, of the surplus which has accrued to the *pro forma* accounts of the Bangalore Assigned Tract and which will be classified in the accounts under the head "32—Miscellaneous—Miscellaneous Refunds."

7. This settlement was clearly a final settlement of the question and the Durbar have received payment of a total sum of Rs. 59,63,203 as detailed below, under that settlement, from 1881-82 to 1917-18 and have been every year in the annual budgets taking credit for the surplus revenues under a cautious estimate based on past actuals.

Year	Amount	Instalments	Date of payment
1881—1910-11 ...	39,22,939 10 8	30 lakhs paid in February, 1914 ..	28-2-14
		9,22,939-10-8 paid in March 1915 ..	11-3-15
		(adjusted to subsidy) ..	1-4-15
1911-12 to 1915-16 ..	11,12,237 8 2	1,10,041-4-4 ..	March 16
		10,02,196-3-10 ..	Aug. 17
1916-17 and 1917-18 ..	9,27,847 13 2	....	7-1-1919

8. After the question of the surplus had thus been finally decided, it was never expected that the Government of India would re-open the question by introducing new principles of settlement or payment. The *first attempt* in this direction was made in the letter of the First Assistant Resident dated the 2nd August 1917, in which it was stated that one-fourth of the surplus would be reserved in future for meeting possible deficits and that expenditure on Education and Sanitation, which had hitherto been met from Imperial grants would in future, *i.e.*, subsequent to 31st March 1916, have to be met from the revenues of the Station. Extracts are given below:—

* * * * * *

It has now been decided with the approval of the Secretary of State that one-fourth of every surplus accruing subsequent to the 31st March 1911, shall be reserved annually until a balance of five lakhs has been built up for the purpose of meeting possible deficits in future years. Thereafter the surpluses will be paid to the Durbar in full annually as they occur, while deficits will be met by a temporary reduction of the balance in question, the latter being then brought back to its full amount of five lakhs from the next surplus.

It has been further decided that the revenues of the Assigned Tract should be relieved wholly of the non-recurring grants and also of the recurring grants made from Imperial revenues for Sanitation and Education up to the 31st March 1916, but that any future expenditure on these two objects must be incurred entirely at their charge of the revenues of the Tract and in proportion to their capacity to meet it.

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The reservation of the surplus, even if it be to meet possible deficits, is clearly opposed to the agreement to pay the surplus as calculated in the *pro forma* accounts every year as they fell due through the account current. The decision that the Imperial grants towards Sanitation and Education which had hitherto been made, up to 31st March 1916, would have to be met in future from the revenues of the Assigned Tract is also opposed to the promise conveyed in the letter of July 1912 that the Government of India had no intention to benefit the Imperial revenues at the expense of the Assigned Tract. It is clear that if what was hitherto being granted from the Imperial revenues had to be met from the revenues of the Station,

the Imperial revenues would be benefited to that extent. Further, such large expenditure of a non-recurring character on Sanitation, etc., is clearly not an ordinary charge on the surplus revenue, firstly because it is necessitated by the peculiar conditions of the C. and M. Station, *viz.*, military requirements of large cantonment, and it is arguable that at least part, if not, the whole of such expenditure should be met by the military budget, and secondly, any scheme of expenditure on such large schemes involves large questions of policy which can only be settled in consultation and in co-operation and partnership with the Durbar and as such cannot be taken up independently by the C. and M. Station authorities and met from the surplus revenues. Otherwise there is no meaning in the words "surplus" and "*pro forma* account" in the settlement arrived at finally in 1914. These surely mean that surplus is arrived at after debiting the normal expenditure. The saddling on the surplus revenues of expenditure that was met till 31st March 1916 from Imperial revenues was clearly a departure from the final settlement described as a "happy termination of a lengthy and troublesome correspondence." It is clear, however, that Mr. Cobb, then British Resident, was responsible for this departure, for he gave the Durbar warning in a letter of the same date as that of the official communication in the following terms:—

> " . . . . if any big scheme or improvement, *e.g.*, enlarging the water-supply or improving the drainage system has to be undertaken, only a nominal surplus, if any, will be available. . . . . ."

The Durbar did not accept the position but protested and explained to Mr. Cobb the sudden change of policy involved in the revised arrangements. The Resident advised the Dewan to wait for a few years before actually lodging a representation. In the meanwhile, the Durbar asked for a fixed annual payment thereby dispensing with the *pro forma* account and other formalities. To this, the First Assistant Resident replied, in a letter dated 5th December 1918, that the Government of India were of opinion that any particular payment of the surplus made in accordance with the general principle which has been adopted, both as regards its amount and the method of its calculation, was to be considered as an act of grace. This, it must be noted, is an interpretation not based on any orders of the Secretary of State. The statement that a particular payment is an act of grace assumes that it may or may not be made. This, His Highness feels, goes at the root of the final settlement and is a direct violation of the pledged word of the Government of India that future surpluses as calculated in the *pro forma* account would be made over to the Durbar annually. It may be argued that the announcement of the policy made in the letter of July 1912 was an act of grace but the Durbar took it as a pronouncement of a liberal and frank policy. The interpretation of the Government of India that any particular payment is an act of grace was apparently given to veto the suggestion of a fixed sum payment, but as the Durbar did not press the fixed sum payment which, in fact, would have been, as stated by the Government of India, financially detrimental, the matter was not taken up then to the Secretary of State.

9. The latest communication states that the Government of India have, with the approval of the Secretary of State, sanctioned the temporary increase of the reserve fund from 5 lakhs to such amount as may be necessary to provide for carrying out schemes of improvement and reform, the cost of which cannot be at present accurately estimated, by the retention of the annual surpluses that have accrued in the *pro forma* account of the Assigned Tract during the years 1918-19 and 1919-20 and that which will accrue during 1920-21.

This decision, in His Highness' opinion, is clearly a violation of the liberal policy declared in 1912 after protracted correspondence and acted upon since 1881-82. It is probably based on the proposals of Mr. Cobb and traceable to his demi-official letter of 2nd August 1917 to the Dewan warning the Durbar of nominal surpluses in future. But, apart from the question of withdrawing what was freely and unconditionally given, the proposal is open to other objections which will be summarised below.

10. It is admitted that the schemes of improvement and reform have not yet been worked out and the estimates are not ready. The Durbar have reason to think that they are under water-supply, drainage, a first grade college and town extensions. As regards water-supply and drainage, the requirements of the

Bangalore City, which is contiguous to the Assigned Tracts, are just as insistent and urgent. Owing to the war, no progress was made in these directions and the Durbar contemplate making a start soon. If, however, their resources are crippled, this will be impossible. Further, owing to large capital expenditure by the Durbar on account of water-supply and electric works, the Assigned Tracts have benefited considerably as the systems apply to both the areas jointly under the Durbar's management, supervision and control. It is obvious that any large improvements in the Assigned Tracts cannot be undertaken independently but will have to be carried out in conjunction and co-operation with the Durbar and the Municipal authorities of the Bangalore City. Mr. Barton, the Resident, I think, will agree to this view. The Durbar may have to find other sources of supply for developing water-supply to the City and the C. and M. Station, and more lands for drainage scheme and town-planning, etc., for the C. and M. Station. All these will require very careful discussion between the Resident and the Durbar and it will take time before any detailed schemes are worked out and estimated. It is safe to say that two years will not be too long for the purpose. It is not at all equitable that the C. and M. Station surplus revenues which have accrued in the past should be retained for such anticipated expenditure in future years. As surplus has accrued during the past two years and as no expenditure has been incurred during the period in which it has accrued, future works have no claim on such surpluses. Further, there is already a reserve built up, although for a different purpose, *viz.*, to meet future deficits. The reserve stands at 5 lakhs already, 25 per cent of the surplus having contributed towards it. There is, besides, about four lakhs of rupees balance in the Municial Commission accounts. Any works, even when estimates are ready, in which the Durbar will surely have to participate in a friendly way, may very well be started and partly executed during the next three years at least, with the funds on hand which are quite sufficient for all practical purposes. The payment to the Durbar of the past two years' surplus will not cause any inconvenience, granting that their representation that such works should not be debited to the surplus is eventually negatived. Pending, therefore, the final orders that may be passed on the questions of policy now raised which are of great importance to the State, it is submitted that the order of retention should be cancelled. The retention of nearly 20 lakhs of rupees, it is needless to urge, has caused serious financial embarrassment to the State which has already lost about 20 lakhs of recurring revenue on account of loss in exchange on their sterling revenue. They have, besides, to incur an additional expenditure of 25 lakhs a year for higher salaries on account of high prices. A difference of nearly half a crore of rupees on the wrong side of the accounts is serious enough. To add to it, another 20 lakhs which they expected would be credited to them, would create very serious difficulties.

11. To sum up—

(1) The retention is opposed to the declared policy of the Government of India and nothing has happened nor has any new situation arisen, to justify a departure therefrom.

(2) The improvement schemes are not ready. They cannot, even if sanctioned, be ready for another two years. The money withheld is not therefore required for immediate expenditure and will not be spent.

(3) Even if the schemes are sanctioned earlier, there is enough of funds under the five lakhs reserve and the balance of the Commission funds totalling up to about eight to nine lakhs, to go on with any scheme.

(4) The improvements in the C. and M. Station cannot be undertaken without reference to the conditions in the Bangalore City situated next to it, and unless similar improvements are made in the City, it will be a source of danger to the C. and M. Station and much of the expenditure will be a waste.

(5) To enable the Durbar to carry out similar works, the surplus should be paid annually as originally agreed to and their resources should not be crippled. Besides, their works may be useful to the C. and M. Station and much unnecessary expenditure on independent schemes may be avoided by friendly co-operation. The C. and M. Station is already enjoying the benefits of a cheap water-supply and electric installations, all paid for by the Durbar. Necessity for any independent large schemes of water-supply and drainage is questionable. If any large expenditure is eventually decided upon for independent improvements in the C. and M.

Station, that should be debited to the Imperial revenues under Military expenditure. The principle was conceded by Mr. Cobb himself when he proposed an independent water-supply scheme costing 8 lakhs and stated that the cost would be met by British Administration.

(6) These schemes will eventually depend on the Durbar's assistance in many directions and will have to be thoroughly examined by the technical officers of both the Governments as they may involve questions of expansion and development of the Assigned Tract in regard to which, His Highness has often expressed apprehension.

12. Taking all these points into consideration, it is submitted that the retention of the two years' accrued surplus at this stage is an unjust violation of past understanding, unnecessary on the ground of its avowed object, and is a great hardship to the Durbar, and therefore requires immediate cancellation.

13. It is suggested that a representation on all these points will be at once submitted officially, but in the meanwhile, to give immediate financial relief pending final orders on these representations, the amount withheld may be paid to the Durbar without delay.

SIMLA,
14th September 1920.

A. R. BANERJI.